

SUMMARY RECORD OF THE SEVEN HUNDRED AND SEVENTH MEETING

held on Friday, 19 July 1974, at 10.35 a.m.

Chairman: Mr. AKHUND Pakistan

THE IMPACT OF MULTINATIONAL CORPORATIONS ON THE DEVELOPMENT PROCESS AND ON INTERNATIONAL RELATIONS (agenda item 8) (continued) (E/5500 and E/5500/Add.1 (parts I and II), E/AC.6/L.553, E/AC.6/L.554, E/NGO/24, E/NGO/25)

Mr. van GORKOM (Netherlands) said that the report of the Group of Eminent Persons to Study the Role of Multinational Corporations on Development and on International Relations (E/5500/Add.1 (parts I and II)) was an important step towards a better understanding of the role of multinational corporations, making it possible to work out international arrangements designed not to hamper their activities, but to ensure that they functioned to the satisfaction of all parties. His Government agreed with those objectives; it was itself studying the question of multinational corporations and would take into account the Group's conclusions as well as the work of EEC and OECD in that respect. It agreed with the Secretary-General's proposals (E/5500) to establish a commission on multinational corporations and an information and research centre. The commission should consist of experts and act as an advisory body to the Council, which was clearly competent to deal with the question and should discuss it at least once a year. The composition of the commission should be carefully balanced so that all interested groups were represented. His Government also agreed with the terms of reference proposed for the commission (*ibid.*, para.22) and for the information and research centre (*ibid.*, para.38); the commission might, he thought, give priority to the drafting of a code of conduct.

Mr. SCHWARTZ-GIRON (Spain) commended the Group of Eminent Persons for the objectivity of its conclusions. The sixth special session of the General Assembly, held at a time of crisis and economic upheaval, had shown that the key problems were those connected with permanent sovereignty over natural resources and the impact of foreign capital on development. Some countries had stressed the sovereign rights of States; others, invoking so-called international law, had defended foreign capital, overlooking two major phenomena which had emerged in recent years: the achievement of independence by many States which had not participated in the making of laws contrary to their interests, and the growing importance of multinational corporations.

Was there a body of international law relating to multinational corporations? According to traditional international law, a State which nationalized or expropriated foreign property had to pay suitable compensation. Since the end of the First World War, however, that traditional rule had been brought into question by certain historical events such as the 1917 Revolution, the nationalization of land and oil fields in Mexico, and the agrarian reform programmes carried out by central European States. The principle of the obligation to compensate had been discussed at the 1930 Hague Conference for the Codification of International Law, which however had not adopted any proposal concerning the international responsibility of States for damage caused to foreign property.

It was difficult to sustain in validity of a rule which was only upheld by a minority of States. In practice, however, States which had taken nationalization or expropriation measures had generally offered compensation. Although the doctrine of

permanent sovereignty over natural resources, and consequently the right to nationalize, were beginning to gain general acceptance, it could not be denied that the cessation of foreign investment might endanger the economies of developing countries. On the other hand, the activities of multinational corporations could run counter to the national interests of those countries.

An atmosphere of distrust was prevailing which tended to widen the gap between developed and developing economies.

The Council had a role to play in that field. It should take appropriate action with a view to establishing a corpus of international law governing multinational corporations. Fifteen years ago, certain international organizations had tried to launch the idea of an investment code, but the attempt had failed. Circumstances had now changed and remedies must be sought if full-scale economic war was to be averted. His Government supported the recommendation of the Group concerning the establishment of a commission on multinational corporations and an information and research centre. Those bodies could be charged with the formulation of legal rules applicable to multinational corporations. His delegation was considering the possibility of submitting a draft resolution to that effect. It was also interested in the proposals submitted by the United States (E/AC.6/L.553), Canada (E/AC.6/L.554) and the United Kingdom (705th meeting) and hoped that the Council would take appropriate action, proceeding cautiously and without undue haste.

Mr. NIKOLAYEV (Union of Soviet Socialist Republics) said that the discussion had highlighted the extreme importance of the problem raised by the activities of multinational corporations. The Council should show a continuing interest in the subject, in view of the apprehensions aroused by the operations of multinational corporations in terms of the development of international economic and political relations.

He would stress the unprecedented expansion of the activity of multinational corporations, whose output, worth about one million million dollars, was now a major factor in international economic life. Those corporations controlled more than half the world's commodity trade and held sway over the greater part of oil production, refining and sales. According to Western estimates, the 300 largest multinational corporations would, by 1980, control three-quarters of the capital of manufacturing industries, and in 10 or 20 years' time would be supplying two-thirds of the gross product of the entire capitalist world. That unprecedented concentration of production and capital in the so-called market-economy system directly or indirectly affected dozens of countries and hundreds of millions of human beings.

The Soviet Union's standpoint on the question of the activities of multinational corporations had been presented on repeated occasions since the Council's fifty-third session, and in particular by Mr. Gromyko, the Minister for Foreign Affairs of the USSR, at the sixth special session of the General Assembly.<sup>1/</sup> It was from that standpoint that the Soviet delegation had studied the reports submitted by the Secretary-General and the Group of Eminent Persons. The Group recommended that the

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<sup>1/</sup> A/PV.2210.

activities of multinational corporations should be rigorously restricted, declaring that they were "not per se geared to the goals of development" (E/5500/Add.1 (Part I), introduction). One member of the Group had been even more explicit on that point, expressing the view that "multinational companies are a component part of the present system of international economic relations, which, as is generally accepted today, rest on inherited privileges and relationships of exploitation, on neo-colonialism" (*ibid.*, (part II) chap.I). Like many other delegations, the Soviet delegation attached particular importance to the passages in the report which referred to political intervention by multinational corporations in the domestic affairs of the developing countries in which they operated. The report clearly showed that the multinational corporations were not above accepting the support of reactionary political parties and groups hostile to social progress.

The adverse effects of the activities of multinational corporations, as revealed by the Group's report, could be summed up as follows: an inadequate contribution to the promotion of employment, especially in developing countries; wider inequalities in income distribution, particularly in developing countries; the introduction into developing countries of ideas and development patterns designed to keep those countries within the world capitalist system; and the creation of a caste opposed to the national interests of developing countries.

The Soviet delegation regretted, however, that the Group had sometimes been over-cautious. For example, in regard to the illegal activities of multinational corporations on the territory of sovereign States, it had confined itself to recalling the sadly-notorious intrigues of the International Telephone and Telegraph Corporation (ITT) in Chile, whereas it could certainly have quoted many other cases of flagrant interference by international monopolies in the affairs of new States. Moreover, the report gave an inaccurate idea of the nature of the process of integration among the socialist countries of Eastern Europe, stating that the process was "the counterpart of regional integration among market economies" (*ibid.*, (part I), introduction). He would emphasize that economic integration between Eastern European countries and the USSR preserved intact, both in its objectives and in its methods, the national sovereignty of the member countries in political and economic matters and was therefore radically different from the integration processes taking place in the capitalist world.

The activities of multinational corporations not only caused anxiety among the governments of developing countries, but were also a source of grave concern to the trade unions. The World Federation of Trade Unions, for example, in a statement dated 3 July 1973, had pointed out that the activities of international monopolies had serious consequences for the social policy of States, and more particularly for employment, working and living conditions, vocational training, democratic freedom and trade union rights, and that it tended to restrict the economic, social, cultural and trade union rights of workers ... at the national and international levels.<sup>2/</sup> Other trade union organizations, especially the International Confederation of Free Trade Unions, were unanimous in calling for stricter international control over the activities of multinational corporations, particularly by the United Nations. The Council should heed those recommendations.

Although the study on the activities of multinational corporations was only in its initial stages in the United Nations, several of the Group's recommendations, especially those in chapter II of the report entitled "Impact on International Relations", might be adopted in the form of resolutions. That applied, for example,

to the recommendation in which the Group condemned all "subversive political intervention on the part of multinational corporations directed towards the overthrow or substitution of a host country's Government" and recommended that "strict sanctions in accordance with due process of law of the host country" should be imposed on multinational corporations guilty of interference in the internal affairs of third-world countries (*ibid.*, chap.II, second recommendation). The adoption of such a provision would strengthen the international legal basis of the sovereign right of developing States to take all necessary measures to protect their political and economic independence. The need for practical action to that end had, moreover, been emphasized in the resolutions adopted at the sixth special session of the General Assembly, particularly in the Declaration on the Establishment of a New International Economic Order (resolution 3201(S-VI)).

Of the other proposals made by the Group, the Soviet delegation considered particularly noteworthy the recommendation that appropriate actions should be taken to ensure that multinational corporations did not violate sanctions imposed by the Security Council on countries following racist policies (E/5500/Add.1 (part I), chap.II, sixth recommendation).

The Soviet delegation considered that in order to implement the Declaration adopted by the General Assembly at its sixth special session, appropriate decisions should be adopted forthwith, in the light of the recommendations in the Group's report, unequivocally condemning intervention by multinational corporations in the affairs of developing countries and establishing a legal basis which would enable those countries to impose their own sanctions on multinational corporations where necessary. Moreover the adoption, in the form of resolutions, of the main conclusions of the Group's report would enable the various United Nations bodies to continue their study of the problem of multinational corporations. In view of the considerable interest of developing countries in the question, the Soviet Union supported the recommendation of the Group that the question of multinational corporations should become a standing item on the Council's agenda. In that context, the Soviet Union could agree to the establishment of specific machinery, which would not be a mere forum for discussion, but would also assure the implementation of the decisions adopted.

Everything must be done to enable developing countries to use the financial and technical resources of multinational corporations for their own economic and social progress if they so wished. At present, the activities of those corporations involved considerable expenditure for developing countries, since the latter had to pay large sums for patents, licences or other facilities in order to acquire technology. Such payments alone represented about \$1,500 million a year - more than half the direct foreign private investment in the third world. The code of conduct proposed in the Group's report and mentioned by several delegations would perhaps mark a step towards strengthening the economic independence of developing countries.

In conclusion, he expressed satisfaction with the serious discussion which had taken place in the Council on the question of the impact of multinational corporations. He hoped that the United Nations would spare no effort to limit the boundless power of international monopolies and to make the principle of justice and equality prevail in international economic relations.

Mr. WANG Tzu-chuan (China) said that developing countries had in recent years one after another condemned the economic plunder, exploitation and political interference indulged in by multinational corporations. The latter had become an important tool of capitalism and of the superpowers. They controlled 90 per cent of the production of 22 principal mineral products in Asia, Africa and Latin America. They reaped enormous profits by plundering the natural resources and exploiting the cheap labour of the developing countries. Together they controlled the international market, forcing down the prices of raw materials and primary products exported by the developing countries and raising the prices of the manufactured goods which they themselves exported. They did everything in their power to prevent the developing countries from achieving an independent national economy or becoming industrialized, and they exploited to the full the weaknesses of countries which, for example, depended on the export of a single product. What was even more serious, the multinational corporations, flouting the sovereignty of the developing countries, interfered in the internal affairs of those countries and even engaged in subversive activities; the performance of the International Telephone and Telegraph Corporation (ITT) in that regard was a case in point. Everything pointed to the fact that in the developing countries, the multinational corporations were States within a State.

The multinational corporations had been discredited in the third world. On the pretext of aid and economic co-operation, a superpower which claimed to be a socialist country was following their example, directly exporting capital to the developing countries and establishing joint enterprises which, in fact, were replicas of multinational corporations. The international capitalists asserted that the multinational corporations had contributed to the economic and social advance of the developing countries and warned those countries that if they were to rid themselves of the multinational corporations, their rate of growth was bound to slacken. The developing countries, however, were sharply aware that the so-called transfer of funds by the multinational corporations was really an export of capital and that the income the corporations drew from their investments far exceeded the amount of those investments. The transfer of technology had never become a reality. The multinational corporations never made the local personnel familiar with any advanced technique. They demanded enormous royalties in order to maintain their monopoly in technology. On the pretext of "creating employment opportunities" they exploited the labour of the developing countries, which cost them far less than labour in their own countries. Relations between the multinational corporations and the developing countries were certainly not relations of interdependence; they were relations between exploiters and exploited.

His delegation considered that the developing countries had a right to take whatever steps they deemed appropriate to develop their national economy. Because of their lack of resources, some of those countries wished to benefit from foreign investment on condition that such investment did not undermine their political independence and furthered their economic development. While that attitude was understandable, his delegation wished to emphasize that all foreign investment must show strict respect for the sovereignty, laws and regulations of the host country. It resolutely supported any steps the developing countries might take to control or nationalize the multinational corporations, the efforts of some raw-material producing countries to combat the monopolistic practices of the corporations and, lastly, the just struggle of the developing countries to protect their natural resources and their economic rights and interests.

The Declaration and the Programme of Action adopted by the General Assembly at its sixth special session (resolutions 3201(S-VI) and 3202(S-VI)) had encouraged the developing countries in their struggle against the multinational corporations by defining their rights as against the corporations. The Assembly had also enunciated a series of principles of importance in the establishment of a new international economic order. In his delegation's view the Economic and Social Council should study the question of multinational corporations and take effective steps to implement the Declaration and the Programme of Action.

His delegation had been disappointed in the report of the Group of Eminent Persons, which in its view failed to reflect objectively the impact of multinational corporations on the development process or on international relations, and in particular did not reveal the plundering and exploitation of the developing countries perpetrated by the multinational corporations. The analysis of certain questions was incomplete and certain ideas were far from timely. The report laid insufficient emphasis, for example, on respect for the sovereignty and laws of the host countries. For all those reasons, his delegation considered that the recommendations in the report should be studied carefully and that no hasty decisions should be taken on them.

Mr. SHENIRANI (Iran) emphasized the importance of the report of the Group of Eminent Persons (E/5500/Add.1(parts I and II)), which his Government had unfortunately so far been unable to study in detail for lack of time. The problem posed by multinational corporations was of interest not only to the developing but also to the developed countries; for it was known that the latter, too, were taking steps to regulate the activities of the corporations. His delegation endorsed the conclusions of the Group. In particular, the recommendation for the establishment of a commission on multinational corporations (E/5500/Add.1(part I), chap.III, second recommendation) was in conformity with the letter and spirit of the Declaration and the Programme of Action for the establishment of a new international economic order. The Programme of Action devoted an entire chapter to the activities of the corporations, emphasizing the need for reviewing arrangements previously entered into. The United Nations was well placed to study the question of multinational corporations and, as the Group had observed, the Council was the body to which should be entrusted the task of determining what practical steps should be taken.

Paragraph 17 of the report of the Secretary-General (E/5500) stated that the multinational corporations could be at once effective instruments of development and sources of tension or conflict. The activities of the corporations had, in fact, a positive and a negative aspect. The negative aspect was illustrated in particular by the behaviour of the oil companies, which had controlled the movement of supply and demand and established prices out of all proportion to the cost of crude oil. The multinational corporations should, however, not be viewed in that unfavourable light alone: they were legal, economic and political entities which should be studied objectively.

His delegation could support the recommendation of the Group and of the Secretary-General for the establishment of a body, composed of members serving in their personal capacity, to promote a dialogue between the parties concerned and to advise the Council (E/5500/Add.1(part I), chap.III, second recommendation and E/5500, para.20). The experience of the Group had shown that it was advisable for such a body to include highly-qualified persons; but in order to ensure a balanced membership, it might be composed partly of government experts and partly of members

servicing in their personal capacity. His delegation could endorse the terms of reference proposed for the body in question but had some doubts about the possibility of establishing a code of conduct for governments and multinational corporations, since the two categories could not be placed on an equal footing. The establishment of an information and research centre, which was indispensable to the work of the proposed commission, was entirely justified.

Mr. de SEYNES (Under-Secretary-General for Economic and Social Affairs) observed that doubts had been expressed during the discussion with regard to certain aspects of the recommendations of the Group of Eminent Persons on institutional problems, which the Secretary-General had considered it his duty to take up in his report (E/5500). It appeared to him appropriate, therefore, to remind the Committee of the considerations which had prompted the Secretary-General. In his desire to meet the Council's concern with regard to the whole institutional structure of the United Nations, the Secretary-General had suggested that the central machinery should be as light as possible and that its costs should be kept very much lower than the allocations made to other bodies dealing with problems of comparable importance, while being sufficient to face up to so vast and complex a phenomenon as that of the multinational corporations. He had been impressed by the sense of urgency which had inspired the Council's discussions in 1972 and 1973 and which had also been evidenced in discussions in other bodies, such as several committees of the United States Congress.

The Secretary-General had therefore submitted recommendations which were very close to those discussed and formulated by the Group of Eminent Persons. Their innovatory nature naturally gave rise to a number of questions. Yet the need for a research and information body such as that proposed needed no demonstration: what was at issue was a relatively recent and still obscure problem which became increasingly complex as more efforts were made to fathom it. Similar centres had already been established for studying various multidisciplinary problems in order that comprehensive documents could be submitted to the Council; there was no reason to fear that the one proposed would duplicate the work of other bodies such as the ILO or UNCTAD; on the contrary, it was because it had been able to utilize the ILO reports on the social aspects of multinational corporations and UNCTAD reports on restrictive business practices that the Group had been able to pursue the inquiry further than those bodies had been able to do. With regard to the centre's activities in the field of technical co-operation, there was no question of usurping the functions of UNDP but rather, as the United Nations had already been doing, of meeting governmental requests for assistance in studying their legislation, their contract practices and their attitude with regard to patents and licenses; and of supplying information to enable them to improve the institutional framework in which the multinational corporations had to operate. That form of co-operation had already proved valuable. The centre could also organize training courses to make personnel from the developing countries familiar with the practices of the multinational corporations and the problems to which they gave rise, and so prepare them to negotiate with the corporations under better conditions.

Lastly, according to the Group's report, the centre would place experts at the disposal of States to participate in negotiations with the multinational corporations. That proposal had given rise to many fears, which were indeed shared by the Secretary-General, who understood the difficulties of such interventions. There was, however, a formula which would not involve the Secretary-General's responsibility: as far as the United Nations was concerned, it would mean the drawing up of a list of persons who could be recommended to governments to assist them in their negotiations.

With regard to the proposed commission, he emphasized that it would be a study commission which would be required to study the problem in greater depth and to furnish the Council with analyses of its various aspects so that the latter could take decisions on problems of such complexity in full knowledge of the facts. In that connexion, it was most important to organize the participation of the various interested categories, such as the trade union movement, the business community, public interest groups and academic personalities, on a systematic and institutional basis. Only in that way could the indispensable dialogue prove fruitful.

Mr. POCOCK (Australia) observed that certain common themes had already emerged from the discussion on multinational corporations, namely, that the report of the Group of Eminent Persons (E/5500/Add.1 (parts I and II)) was a good survey of the key issues of the problem, even if it constituted only a beginning; that in studying such far-reaching and complex problems, it was important to adopt a pragmatic, step-by-step approach; and that the fundamental issue was the establishment of trust. The activities of multinational corporations, which were part of the world economic and political scene, presented problems not only to developing countries but also to developed countries, although sometimes for different reasons. Australia had to acknowledge that foreign investment had facilitated the development of its natural resources; but it was nevertheless concerned about certain aspects of foreign participation and was determined to achieve the highest possible level of ownership and control of its own resources, particularly mineral resources, at the same time taking care to establish terms fair to all the parties concerned. Australia was sympathetic to the desire of developing countries to regulate foreign investments in accordance with their national aspirations and their development plans. In that sense, Australia had accepted its responsibilities both as a host and as a home country. Since the beginning of 1974, it had endeavoured to encourage the establishment of companies on a joint-venture basis in the countries in which it invested, particularly in the developing countries in Asia and the Pacific, in order to promote the host country's ownership and control of such enterprises and to improve labour relations.

In the view of his delegation, the Group's report required a much more detailed examination at the national and international level than had been so far possible. In conducting such an examination, account should also be taken of the work that had been done elsewhere in the United Nations system or in other international organizations such as OECD. The Economic and Social Council was certainly the appropriate body to undertake the over-all review of the question, and his delegation, like the Group, thought that the Council should be assisted by a commission on multinational corporations. Unlike the Group, however, it considered that the commission should be an intergovernmental body, since the issue was political as well as economic. Furthermore, in his delegation's view, the commission should be composed of representatives of governments and not of experts selected in their private capacity, since governments would then be able to be represented at meetings by different experts according to the subject under discussion. It would be useful for the commission to meet annually but it would be premature as yet to establish precise terms of reference. That was a question on which the commission might itself submit recommendations to the Council on the basis of the Group's report. He recognized that it was important to collect and analyse information on the impact of multinational corporations, but he hoped that such activities would be carried out, at least initially, within the existing United Nations machinery.

With regard to the Group's recommendations about negotiations between host countries and multinational corporations (E/5500/Add.1(part I), chap.I, fourth recommendation), his delegation thought that the United Nations could develop the technical and legal advice which it was providing to host countries in order to facilitate such negotiations.

In conclusion, his delegation hoped that there would be a gradualist approach to the problem of relations between the home countries, the host countries and multinational corporations, that efforts would be made to reach an agreement on general principles of conduct having regard to the interests of all the parties concerned, and that the legitimate requirements of the host countries, particularly developing countries, would be duly taken into consideration.

Mr. CABRIC (Yugoslavia) said that he would confine himself to a few comments on the reports of the Group of Eminent Persons (E/5500/Add.1(parts I and II)) and of the Secretary-General (E/5500). First, he would like to thank the Chairman of the Group and the Under-Secretary-General for Economic and Social Affairs for the explanations which they had given.

The Group's report deserved the greatest attention and the four meetings scheduled for the consideration of the relevant agenda item were not sufficient to allow a study in depth. Nevertheless, the question was of tremendous importance for the developing countries in view of the fact that it concerned both their independence and the full exercise of their sovereignty.

Owing to lack of time, his delegation would limit itself to the question of how to ensure continuity in the consideration of the question, which was closely linked with that of the new international economic order. In its view, work on such a delicate question should come under the competence of an international organ, which should be the Economic and Social Council. To that end it was imperative to set up a commission or group of experts to be responsible for studying the question and submitting recommendations to the Council. As the question had very important political implications, the commission should be composed not of experts selected in their private capacity but of experts representing governments. They might be appointed by the Secretary-General on the proposal of governments and with the approval of the Council. His delegation considered that the commission should also include representatives of multinational corporations, trade unions, consumer groups, etc.

For the reasons he had given, the commission should, in his delegation's view, be established at the current session. If it proved impossible to work out its terms of reference immediately, it could be assigned the task of making a detailed study of the report of the Group of Eminent Persons and of submitting appropriate recommendations to the Council. The Council could consider the commission's report at its fifty-eighth session and draw up its terms of reference.

His delegation considered that the Council should review the question of the activities of multinational corporations regularly every year, perhaps at its spring session.

Although it was generally in favour of establishing an information and research centre, his delegation thought that the decision to establish such a centre might be deferred to the Council's fifty-eighth session, or until after the special session of the General Assembly scheduled for 1975. In that connexion, his delegation wished to stress that the centre should be financed only out of resources from the budget, and not by voluntary contributions.

Mr. SKOGLUND (Sweden) said that his delegation noted with much satisfaction the report of the Group of Eminent Persons (E/5500/Add.1(parts I and II)) on the impact of multinational corporations on the development process and on international relations.

His delegation considered that foreign investments could have positive as well as negative effects for the host country but that private investments should not be regarded as aid to developing countries, since the profit motive could not produce socially acceptable results unless it was subject to government control.

The size of multinational corporations and their wide field of activities underlined the need for international co-operation, but national action should not be overlooked. The decision-making power of the corporations should be counter-balanced by measures taken by governments and other groups, such as trade unions.

The Group's report provided useful information on the activities of multinational corporations in the developing countries, but there was a need for further analysis and study of the matter. Like the Secretary-General, his delegation thought that an international mechanism should be set up for that purpose, but it wondered whether the composition of the commission proposed by the Group was the most appropriate. It considered it preferable to establish an intergovernmental body and not a commission of experts selected in their private capacity, in order to obtain governmental support before discussions took place in the Economic and Social Council. Experts and representatives of different interest groups could naturally be invited to take part in the work of the commission.

In view of the lack of information about the activities of multinational corporations, his delegation supported the Group's recommendation to establish an information and research centre on the subject. The work of the centre would make it possible to create the necessary international co-operation to regulate the corporations' activities efficiently. Furthermore, in order to co-ordinate the activities of the proposed international machinery and those of other United Nations bodies - for example, the code of conduct for governments and multinational corporations on one hand and the Charter of Economic Rights and Duties of States on the other - his delegation supported the establishment of a co-ordinating committee as proposed in paragraph 40 of the Secretary-General's report (E/5500). In his delegation's view, such a committee should be responsible not only for the co-ordination and division of responsibilities between the different bodies, but also to a certain extent for the priorities to be adopted. In that connexion, he would appreciate some clarification about the way in which the co-ordinating committee would report to the Council.

The meeting rose at 1.00 p.m.